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WEEKLY INTELLIGENCE HIGHLIGHTS

NO. 101

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OFFICE OF REPORTS AND ESTIMATES, CIA
FAR EAST/PACIFIC DIVISION

INTELLIGENCE HIGHLIGHTS NO. 101
17 MAY to 23 MAY 1950

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

Recent indications that the Chinese Communists desire to establish diplomatic relations with Rangoon foreshadow attempts to strengthen orthodox Communism in Burma (p. 2).

The success of economic stabilization measures adopted by the Republic of Korea depends on implementation by mediocre officials (p. 3).

the evacuation of the Chou Shans by the Nationalists will revive the economy of the south China ports but will not restore their former levels of trade activity (p. 4).

Burmese Army victories over the Karens and Communists increase the possibility of stability in Burma (p. 5).

The Indonesians are dissatisfied with the results of their mission to Moscow (p. 6).

An early development of a viable regional association of non-Communist Far Eastern states is dependent on the outcome of the 26 May Baguio Conference (p. 7).

Australia's ambitions for leadership in Asia were dashed by virtual Commonwealth rejection of its plan of aid for Southeast Asia (p. 8).

NEWS NOTES

Students riot in Japan...The US and Communist China barter cotton and beans...An average harvest expected in China...A "Soviet-Chinese-Burmese" society formed in Rangoon...British accelerating anti-terrorist efforts...Philippine Congress adds to Quirino's woes.

(NOTE: Section III contains an analysis of the controversy in Japan over the repatriation of Japanese POWs by the USSR.

The marginal notations used in succeeding sections of this Weekly ("A", "B", or "C") indicate the importance of the items in D/FE opinion with "A" representing the most important.

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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERAL

Peiping recognition will threaten Burma---The Chinese Communists, after stalling for several months, have apparently decided to establish diplomatic relations with the Government of Burma.

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Peiping's acknowledgement of Burmese recognition last December -- Burma was the first non-Communist nation to recognize the Chinese Communists -- was almost insulting, and U Pe languished for months in Kunming while the Communists delayed in transporting him to Peiping. It appears that the Peiping regime purposely postponed receiving U Pe until an evaluation of Burmese Communist capabilities could be made. However, recent Burmese government successes -- Prome was captured by government forces on 19 May -- have reduced the immediate prospects of the Burmese Communists, and probably have convinced Peiping that recognition of a Burmese Communist "government" at this time would be premature.

It is still possible that Peiping is not genuinely interested in establishing diplomatic relations with the Burmese government, and that negotiations have been undertaken chiefly to probe Rangoon's vulnerabilities to Communist pressure. More probably, however, Peiping's desire to install its representatives throughout Southeast Asia will outweigh all other considerations, including ill-treatment of Chinese in Burma and the undefined portion of the Sino-Burmese boundary, and diplomatic missions will eventually be exchanged. Burma will then be subjected to a two-pronged attack by the Chinese Communists.

Peiping will first exert its influence on the harassed and Marxist-oriented Government of Burma -- which has only rarely been abused in Peiping's propaganda -- and upon the many non-Communist elements in Burma, notably the left-wing Socialists, who are favorably disposed toward theoretical Communism in general and toward the Chinese Communists in particular. Secondly, Peiping's liaison with the Burmese Communists will be strengthened; material support to the latter will be increased and the extension of Peiping's control over the overseas Chinese in Burma will be accelerated. When all these objectives have been achieved, the Chinese Communists will be in a position to undermine the internal position of the Burmese government while improving the capabilities of Stalinist adherents in Burma.

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KOREA

Economic progress in ROK?---The Republic of Korea (ROK), despite its recent adoption of a number of realistic financial and budgetary measures as a result of Joint US-ROK Stabilization Committee recommendations and the Hoffman-Acheson messages, has as yet failed to exert the maximum effort necessary to stabilize the national economy. "B"

A balanced budget for 1950 has been achieved on paper, and if maintained, will establish a sound base for governmental fiscal stability. Recently enacted tax measures and more realistic rates for utilities and transportation are expected to increase governmental revenue. Under the impact of the stabilization program and seasonal contractions, currency in circulation has declined to Won 60 billion (Won 900 equals US \$1 at the official rate of exchange). Furthermore, prices of staple commodities (other than foodstuffs) have reportedly declined an average of 20-30% as a result of currency reductions and of the newly instituted foreign exchange auction.

Among the most serious of the unsolved financial problems is the expanding overdraft with the Bank of Korea. As a consequence of partial settlement of outstanding obligations from the previous fiscal year (ending 31 March 1950), the overdraft increased Won 15 billion in the month of April to a new high of almost 100 billion. ECA officials in Korea fear that loans for the purchase of rice could result in an even greater expansion of the deficit at the end of fiscal year 1951.

Economic stabilization measures approved by the ROK will be only as successful as their implementation. While the elements for financial stability probably exist in southern Korea today, the test of whether stability can be achieved or not lies with those individuals in the ROK government responsible for implementing stabilizing measures. To date, administrative and operational mediocrity on the government level and a lack of comprehension of the economic forces at work have often tended to cancel out progress made in the field of government finance and the operation of government-owned industries. In all, it appears that only limited advancement in the solution of the ROK's financial and economic problems can be reasonably expected during the next year.

CHINA

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Chou Shan evacuation to aid CC economy--Evacuation of the Chou Shan islands and other blockade bases by the Nationalists augurs at least partial economic recovery in the second half of 1950 for depression ridden Shanghai and Canton. In the past months, the Nationalist blockade has been perhaps the principal cause of economic distress in the coastal cities south of the Yangtze. Shanghai has been particularly hard hit. Formerly the port of entry for about four-fifths of the country's foreign trade, Shanghai has been for the past year virtually isolated from ocean shipping.

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The loss of foreign trade brought to Shanghai a large-scale unemployment problem. The major industry of the city -- cotton textiles -- was badly hit by inability to import necessary supplies of raw cotton and Nationalist aircraft based on the Chou Shan islands aggravated this situation by their effective bombing of the city's electric power stations. The reduction in power available to the city's factories and a decline in needed imports of raw materials threw perhaps a third of Shanghai's workers out of work. In the opinion of some competent observers, the plight of the city, duplicated to a lesser extent in Canton and other cities of south and central China, has been the principal cause for the decline in Communist prestige among the Chinese people during the past several months.

The evacuation by the Nationalists of their offshore bases has now, however, reduced the effective blockade area to the vicinity of the Taiwan Straits. Shanghai and Canton, the principal ports of central and south China, will be accessible to foreign shipping. Although the resulting revival of trade promises substantial economic recovery to these areas, there are serious handicaps to a full restoration of pre-blockade activity. In the Canton area, extensive river piracy will continue a deterrent to shipping. In Shanghai, the damage to the city's power installations precludes an immediate rebound to former production levels. Full restoration in Shanghai possibly also awaits the clearing of mines laid by the Nationalists in the Yangtze.

Both in Shanghai and Canton, the withdrawal of many Chinese as well as foreign businessmen will be an additional factor to discourage the complete revival of trade to former levels. In the immediate future, government trading enterprises can fill only in part the vacuum left by the closure of private firms. Furthermore, the announced intent of the Communists to assign priority to reconstruction in Manchuria and north China and to encourage the evacuation of factories and personnel from Shanghai and Canton may preclude, even over a long-range period, the full restoration of the south and central China areas to their former levels of economic importance.

BURMA

Stability still improving--Burmese Government forces have very recently captured Prome, the Communist "capital" in Burma. This victory represents a second notable success against insurgency within the past two months and has eliminated the last important center in Burma under rebel control. Furthermore, if the Government succeeds in reopening the Irrawaddy River to Mandalay, the main concentrations of Communist strength will be wedged between the two Government-controlled Rangoon-Mandalay corridors. Under such circumstances, the Communists' freedom of move-

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ment, access to sources of supplies and communications with foreign Communists will be restricted.

The Government's increased prestige, obtained at Communist expense, is evidenced by reports that large numbers of the formerly Communist-oriented Peoples Volunteer Organization (PVO) are surrendering, seeking amnesty or giving outright assistance to the Government forces. If this tendency of the PVO's to return to the Government fold continues, the Communists will be further isolated and Governmental authority restored over considerable territory. Also, any resultant significant increase of stability in Burma will permit the Government to prepare itself to deal more effectively with Communist pressures exerted from beyond its borders.

Although encouraging progress has been made toward stability in Burma and Prime Minister Thakin Nu -- now in London -- has announced his belief that the civil war is on the point of ending with a complete victory for the Government, the situation should be viewed cautiously. The main Communist forces, like those of the Karens, have not been destroyed and are likely to continue prolonged guerrilla warfare. The Government, therefore, will probably experience considerable difficulty in maintaining the security of its two thin corridors connecting upper and lower Burma. In addition, the monsoons will hamper Government mopping-up operations or any efforts to expand its area of control. Nevertheless, barring further political upheavals, if the Government does no more than maintain its present positions until the rains end in October, it should be able to resume operations then and regain control of much of the rich rice-growing areas before the harvest in late November.

INDONESIA

Indonesian Moscow mission completed--An Indonesian mission to Moscow to discuss the exchange of diplomatic missions with the USSR returned to Djakarta on 15 May. It has been reported that the mission's conversations with Soviet Foreign Office officials were limited to the problem of exchanging representatives and to Indonesia's primary objective: Soviet guarantee that the USSR would offer no objection to Indonesia's admission to the UN. Both parties agreed that each country should send one representative to the other's capital to explore the local housing situation and to make other arrangements for the actual exchange of missions. A Soviet verbal assurance of non-opposition to Indonesian membership in the UN, however, was far from the specific commitment sought by the Indonesians. As a result, leading Indonesian officials feel that their country should not accept a Soviet Embassy until the USI has actually been accepted in the UN. All members of the Indonesian delegation privately expressed markedly unfavorable impressions of Moscow, complaining of high prices, the

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lack of cordiality and surveillance by the police. The two extreme leftist members of the mission were particularly unhappy because their pockets were picked.

PHILIPPINES

Baguio regional conference—The Baguio Conference to discuss the formation of an Asian union will be convened by President Quirino on 26 May. The outcome of this meeting will indicate in large measure whether a viable regional association can emerge in the near future despite the many divergent interests of Far Eastern nations.

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Plans to hold the Conference were begun in August 1949 after UN Representative Carlos Romulo had extricated Quirino from commitments to a regional anti-Communist military pact, which had been jointly proposed by Quirino and CHIANG Kai-shek. Romulo suggested instead that a non-Communist regional association be formed to promote common interests and preserve freedom. Quirino accepted Romulo's concept and assigned him the task of planning a regional exploratory conference at Baguio. In accepting responsibility for presenting the proposal to other Asian nations, Romulo carefully avoided reference to military commitments. However, it was clear that the Philippine Government hoped that any emergent consultative machinery would ultimately consider general security measures for all participants.

Romulo appears to have encountered considerable difficulty in divorcing the revised plan from the military pact proposed in the Quirino-CHIANG discussions and the date for the Baguio Conference had to be postponed several times. India and Australia proved especially intractable. Nehru's desire that India remain a "third force" in the cold war and his ambition to assert leadership in Asia himself complicated the task of gaining Indian support. On the other hand, Australia's primary interest that the US be included in any security pact and suspicion of a group dominated by Asians caused the Australian Government to reject the project initially. However, both India and Australia, albeit reluctantly, were finally persuaded to participate.

The agenda for the Baguio Conference will be adopted only after the conferees meet on 26 May. It is expected that common nationalist sentiments may be expressed in declarations that a greater measure of independence should be granted to Indochina. In addition, general dissatisfaction with the Economic Commission for Asia and the Far East (ECAFE) may cause the Conference to be used as a sounding board for economic development plans. Plans for a cultural exchange program will probably be discussed and a secretariat may be created to promote such a program and to facilitate further regional consultation. In general, the Confer-

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ence will probably stress support of the UN and will carefully avoid any action which could be interpreted as alignment either with the Soviet or Western bloc.

AUSTRALIA

Sydney Conference failure—The Commonwealth consultative conference at Sydney, which met to discuss the possibility of extending economic aid to South and Southeast Asia, ended on 19 May an apparent failure from the Australian point of view. Failure by the Australians to persuade the conference to adopt their plan constituted a defeat in Australia's attempts to achieve distinction as a leader in Asia. "B"

The conference had been called largely as a result of the efforts of Australian External Affairs Minister Spender. Spender reportedly attended the conference determined to force Commonwealth agreement on a three-fold plan for short-range economic aid in Southeast Asia. He proposed the establishment of a Commonwealth fund for technical assistance, emergency relief, and credit arrangements. Although the conference agreed to establish a £3,000,000 sterling fund for technical assistance -- considerably less than Spender recommended -- the remainder of the Australian program proved unacceptable. Non-Asian delegates indicated their appreciation of the security considerations which undoubtedly were involved in Australian thinking, but clearly intimated that Australian desires for immediate aid were based neither upon cogent reasoning nor upon adequate resources.

NEWS NOTES

Serious student agitation throughout Japan under the pretense of "safeguarding the freedom of learning" now appears to be part of the current Communist anti-Occupation and anti-US campaign. Communist-inspired student demonstrations at Tokoku and Hokkaido Universities (on 2 and 15 May, respectively) were directed against Dr. Walter C. Eells, Educational Advisor to SCAP, who is presently on a lecture tour encompassing 32 of Japan's universities. The specific target of the student protests is a SCAP-approved recommendation by Eells that Communist instructors should be expelled from Japan's institutes of higher learning. A general protest strike proposed by the Communist-dominated National Federation of Students Association for 3 June has, however, met opposition from the Japanese Education Ministry which has warned of "strong steps" should the strike movement develop a nation-wide character.

The recent barter agreement --arranged by a private import-export firm-- whereby 60,000 tons of Manchurian soybeans are to be made available to US Occupation forces in Japan in exchange for 45,000 bales of

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US cotton released by the Commodity Credit Corporation, is among the more interesting developments in the continuing pattern of US trade with Communist China. This contract represents the largest single exchange with a non-Communist country yet to be made by the Chinese Communists. If the imported cotton is not diverted to China proper, where cotton is in extremely short supply, it will be sufficient to satisfy the requirements of Manchuria's 200,000 spindles during the remainder of 1950.

An average harvest in China during the next month can be expected by the Chinese Communists. While this estimate does not measure up to official Communist forecasts of bumper crops this June, it is true that most of China has received ample rainfall in the last few months. A number of destructive factors which are apparently ignored by the Ministry of Agriculture have probably offset the good weather to some extent: (1) standing water last fall hampered the sowing of wheat and barley; (2) starving peasants have been raiding ripening crops in recent weeks; and (3) northern parts of Kiangsu and Anhwei were again flooded this year.

A committee of Chinese Communists and Burmese Socialists was formed on 14 May in Rangoon with the purpose of establishing a "Soviet-Chinese-Burmese Friendship Association." It is quite likely that this organization will attempt to unite all pro-Communist groups in the Rangoon area.

In Malaya, the British are continuing their efforts to bolster anti-bandit operations. During the past week new emergency regulations were announced for the Colony of Singapore which will permit a death sentence for anyone attempting to throw, or found in possession of, a bomb; a life sentence for any person found in the company of such an individual, and long prison terms for anyone withholding information on the plotting of such crimes. The period for which persons may be detained was also extended from two to three years to prevent the release of those terrorists arrested earlier in the campaign.

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The Philippine Congress, which adjourned on 18 May, failed to pass much important legislation. However, what measures it did enact have created additional problems for President Quirino. The President's emergency powers bill, which absorbed Congressional attention during the closing days of the session, was defeated despite Quirino's attempted

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"pork barrel" bribe of the lower House and efforts to reconcile his own Liberal Party opposition in the Senate. Although the budget was passed, necessary supporting tax measures and public works legislation were not adopted. Moreover, a special Senate committee was appointed to investigate Governmental irregularities.

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SECTION III. The Repatriation Issue in Japan

The return of 510,409 Japanese POWs, the release of 70,880 others in battle areas and the retention of over 2,600 for various war crimes has recently been announced by the USSR as constituting the completion of the Soviet repatriation program. Almost immediately, the Japanese press and Government reacted with charges that the USSR has failed to account for approximately 310,000 additional Japanese POWs. Since any presentation of the controversial repatriation issue -- and particularly of the wide disparity in figures -- requires a certain amount of background, a brief review of its history appears pertinent.

The USSR failed to commence the repatriation of Japanese POWs for a year after the end of World War II. On 19 December 1946, an agreement was reached between SCAP and USSR representatives, calling for the return of 50,000 Japanese POWs per month. Soviet authorities consistently failed to maintain this rate of return and, during the winters of '47 and '48, repatriation ceased completely, due to "unfavorable climatic conditions". Various SCAP offers to hasten repatriation -- by providing shipping for 160,000 per month or loaning ice-breakers -- received no attention, although Soviet propaganda directed at the POWs blamed inadequate Japanese Government shipping and provisions for the delay.

A TASS release on 20 May 1949 indicated that, upon the return of 95,000 more POWs, Japanese repatriation would be completed (except for some 10,000 being held for war crimes). Subsequently, on 15 December 1949, a spokesman for the Soviet Mission in Japan advised a delegation from the National Council for Repatriation of Japanese Nationals Overseas that -- the 95,000 having been returned -- the repatriation program was concluded. The Soviet member of the Allied Council for Japan refused, that same month, to discuss the issue and boycotted several subsequent ACJ meetings until the subject was removed from the agenda. Between January and April 1950, however, several additional shiploads of repatriates arrived, despite the unofficial Soviet assurance that the program was complete.

USSR slowness in repatriation is due to a variety of reasons, among which may be: (1) the exploitation of POWs on labor projects, (2) the desire to indoctrinate before repatriation, and (3) a low priority for POWs on the limited Siberian transportation facilities. In any case, the USSR's tardiness has served to discredit the Japan Communist Party. JCP officials asked the good offices of the Soviet Mission in 1948, and, in the spring of 1949, sent a telegram to the Communist Party of the USSR, urging speedy repatriation. Although, more recently, the Party line has shifted to a claim that the Japanese Government's figures are faked, the repatriation issue has placed JCP propaganda on the de-

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fensive. The most recent example has been the so-called "TOKUDA Case". Several Diet Committees have investigated repatriate charges that TOKUDA Kyuichi, Secretary General of the JCP, requested Soviet authorities not to repatriate reactionary POWs. Despite TASS denial that the request was ever made, an interim report by the Lower House Examination Committee adjudged the JCP guilty of interfering with repatriation and TOKUDA guilty of alleged perjury.

As for the "missing" repatriates, it is possible that Japanese Government estimates are somewhat wide of the mark, if for no other reason than the USSR's failure to provide any POW statistics. It is even more probable, however, that repatriation is indeed nearly complete and that the discrepancy between Japanese claims and the number of POWs repatriated is chargeable to thousands of deaths which the USSR is unwilling to acknowledge because of the attendant adverse reaction both in Japan and in the general non-Communist world.

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